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# INV 1201: Statement of OIC Investment and Management Beliefs

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## Preamble

This Statement of Investment and Management Beliefs (the "Beliefs") enumerates fundamental investment and management principles that guide the Oregon Investment Council ("Council" or "OIC") in performing its fiduciary and statutory obligations which include establishing policies for the investment and management of "investment funds" as defined in 293.701(2). The Oregon State Treasurer, largely through the Investment Division of the Office of the State Treasurer ("Treasurer" or "OST"), provides staff support for the Council and, as the Council's statutorily designated "investment officer" (together with such other persons determined qualified by the Council to conduct investment and management functions on its behalf), invests and manages in accordance with Council policy those moneys made available by the Council for such purposes. The Treasurer may also adopt additional policies governing its investment and management functions. The OIC and OST recognize that their respective authority to establish and implement such policies is grounded in and bounded by fiduciary and statutory foundations to their authority which charge them with exercising a duty of exclusive loyalty to fund beneficiaries by ensuring that related moneys are invested as efficiently and productively as possible while adhering to applicable standards of prudent judgment and care. Accordingly, the

following statements and accompanying OIC policies are intended to be in harmony with and promote the fulfillment of such obligations.

## **OREGON INVESTMENT COUNCIL**

### **Statement of Investment and Management Beliefs**

#### **1.) THE OIC SETS POLICY AND IS ULTIMATELY RESPONSIBLE FOR THE INVESTMENT PROGRAM**

**A. Investment management is dichotomous -- part art and part science.**

- To calibrate both governance and daily operating activities with the appropriate balance between art and science, the Beliefs will be anchored where and whenever possible to industry best practices as illuminated by academic research and experiential rigor.

**B. The OIC is a policy-setting council that largely delegates investment management activities to the OST and qualified external fiduciaries.**

- The OIC sets strategic policy which includes, but is not limited to, Asset Allocation, Portfolio Construction, Risk Measurement and Performance Monitoring. The OIC's purview also includes establishing and defining its philosophy as manifest in this Statement of Investment and Management Beliefs.
- The OIC tasks OST staff, external managers, consultants and other service providers with policy implementation.

**C. The OIC is vested with the authority to set and monitor portfolio risk. Both short-term and long-term risks are critical.**

- The OIC must weigh the short-term risk of principal loss against the long-term risk of failing to meet return expectations.

**D. To exploit market inefficiencies, the OIC should be long term, contrarian, innovative, and opportunistic in its investment approach.**

- The OIC should generally prepare for and accept periods of extreme price/valuation volatility and/or related market dislocations and endeavor to act expeditiously during such periods if and when deemed advantageous.

#### **2.) ASSET ALLOCATION DRIVES RISK AND RETURN**

**A. Asset allocation is the OIC's primary policy tool for managing the investment program's long-term risk/return profile.**

- Decisions regarding strategic asset allocation will have the largest impact on the investment program's realized return and risk and hence will be made judiciously and receive special emphasis and attention.
- The timing and magnitude of projected employer contributions and future benefit payments have significant cash flow implications and thus will receive explicit consideration during the OIC's asset allocation decision-making process.

**B. Portfolio construction, including diversification and correlation considerations, is essential to maximizing risk-adjusted returns.**

- Empirical rigor, coupled with sound judgment, is required in the portfolio construction process to

effect true diversification, while discipline is required to maintain diversification through and across successive market cycles.

- Risk is multi-faceted and may include, but is not limited to, the following types of specific risks: principal loss; opportunity cost; concentration risk; leverage and illiquidity risk; volatility and valuation risk; interest rate and inflation risk; and environmental, social and governance (ESG) risks.<sup>1</sup>

### **3.) THE EQUITY RISK PREMIUM WILL BE REWARDED**

**A. Over the long-term, equity-oriented investments provide reliable return premiums relative to risk-free investments.**

- Although returns for risk taking are not always monotonic or consistently rewarded over time, bearing equity risk commands a positive expected return premium provided such risk is reasonably priced.

### **4.) PRIVATE MARKET INVESTMENTS CAN ADD SIGNIFICANT VALUE AND REPRESENT A CORE OIC/OST COMPETENCY**

**A. The OIC can capitalize on its status as a true, long-term investor by making meaningful allocations to illiquid, private market investments.**

- Private markets provide a diversifying risk/return profile relative to public market analogues.
- Private markets offer excess return opportunities that may be exploited by patient, long-term investors.

**B. Dispersion in private market investment returns is wide; accordingly, top-quartile manager selection, diversification across vintage year, strategy type, and geography, and careful attention to costs are paramount.**

- Private market investment success is predicated on identifying skilled managers and developing long-term investment relationships with those managers that enable the application of skill to manifest in the form of excess returns.
- Proper investment pacing, including deliberate vintage year diversification is also an integral element of superior private market investment results.

### **5.) CAPITAL MARKETS HAVE INEFFICIENCIES THAT CAN BE EXPLOITED**

**A. Inefficiencies that can be exploited by active management may exist in certain segments of the capital markets.**

- While largely efficient, select segments of the capital markets can sometimes be successfully exploited by skilled active management.
- The nature (i.e., perceived magnitude and likely duration) of such inefficiencies should inform the proposed active management strategy (e.g., discretionary or systematic).

**B. Passive investment management in public markets will outperform the median active manager in those markets over time.**

- Active management should therefore be a deliberate choice and applied only to those public market strategies/managers in which the OIC enjoys a high degree of confidence that such strategies/managers will be sufficiently rewarded on a risk-adjusted basis and net of all fees, factor exposures and related transactions costs.

## **6.) COSTS DIRECTLY IMPACT INVESTMENT RETURNS AND SHOULD BE MONITORED AND MANAGED CAREFULLY**

- A. All fees, expenses, commissions, and transaction costs should be diligently monitored and managed in order to maximize net investment returns.**
- While all costs should be monitored and controlled, these costs should also be evaluated relative to both expected and realized net returns.
- B. External incentive structures should be carefully evaluated to ensure proper alignment with investment program objectives.**
- Fee and incentive structures drive both individual and organizational behavior.
  - These structures (particularly in private market strategies) should be carefully evaluated and monitored to ensure that the goals and incentives of individual investment professionals and their respective organizations are well aligned with the specific investment objectives established by the OIC and/or OST staff.

## **7.) FAIR AND EFFICIENT CAPITAL MARKETS ARE ESSENTIAL FOR THE LONG-TERM SUCCESS OF OST INVESTMENT ACTIVITIES**

- A. The OIC recognizes that the quality of regulation and corporate governance can affect the long-term value of its investments.**
- The Council supports competitive and transparent market structures to ensure accurate and timely price discovery/asset valuation.
- B. The OIC also recognizes that voting rights have economic value.**
- Voting rights should be exercised in accordance with applicable law and policy.

## **8.) THE INTEGRATION OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) FACTORS, SIMILAR TO OTHER INVESTMENT FACTORS, MAY HAVE A BENEFICIAL IMPACT ON THE ECONOMIC OUTCOME OF AN INVESTMENT AND AID IN THE ASSESSMENT OF RISKS ASSOCIATED WITH THAT INVESTMENT.**

- A. The consideration of ESG factors within the investment decision-making framework is important in understanding the near-term and long-term impacts of investment decisions.**
- The OIC believes that understanding how social and environmental factors impact investments is an important step towards building a more sustainable portfolio.
- B. Over time, there has been an evolution of multi-factor, or more holistic approaches, to identify opportunities and remediate risks, in a large globally-diversified investment portfolio.**
- ESG data collection aligns our ability to prudently measure and monitor risks and returns. Once identified, ESG risk mitigation strategies can be implemented and proactive ESG transition strategies pursued, subject to statutory fiduciary obligations.

## **9.) DIVERSITY, IN ALL ASPECTS, IS ACCRETIVE TO MEETING OIC OBJECTIVES**

- A. By embracing and enhancing diversity and inclusion efforts, the OIC ensures that the investment program will be exposed to and informed by a wide range of perspectives, ideas and opinions.**
- The OIC believes a wide range of perspectives, ideas and opinions will ultimately produce better

investment outcomes.

<sup>1</sup> Concepts of risk and associated measurement techniques are evolving. Heretofore underdeveloped, the identification and measurement of ESG risks is improving which will enable new risk management applications in both security selection and portfolio construction processes.

## Attachments

No Attachments

## Approval Signatures

Step Description	Approver	Date
Oregon Investment Council	Rex Kim: Chief Investment Officer	09/2020
	Deena Bothello: General Counsel	09/2020
PolicyStat Admin	Carmen Leiva: Operations Analyst	08/2020
	Rex Kim: Chief Investment Officer	08/2020

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